

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 SAJ-01

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 /090 W

-----120751Z 014330 /11

R 111530Z JAN 77

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 9199

INFO AMEMBASSY MOSCOW

AMCONSUL ZAGREB

C O N F I D E N T I A L SECTION 1 OF 2 BELGRADE 154

EO 11652: GDS

TAGS: ECON YO UR

SUBJ: ECONOMIC TOUR D'HORIZON WITH USSR EMBASSY OFFICIALS

REF: (A) BELGRADE 3506, (B) BELGRADE 3532

SUMMARY: TWO EMBOFFS CALLED ON IOURI KNIAZEV, COUNSELOR FOR ECONOMIC AFFAIRS AT USSR EMBASSY JAN 10. PRESENT WITH KNIAZEV WAS ALEXANDER RAZARENOV, DESCRIBED AS ECONOMIC OFFICER, WHO DOES NOT APPEAR ON BELGRADE DIP LIST NOR DOES HIS PERSONAL CARD LIST ANY RANK OR POSITION. END SUMMARY.

1. TRADE: U.S. EMBOFFS ASKED FOR INFORMATION ON THE NEWLY SIGNED 1977 TRADE PROTOCOL BETWEEN USSR AND YUGOSLAVIA. KNIAZEV PRESENTED IT AS A PREDICTABLE EVOLUTION OF TRADE BETWEEN THE TWO COUNTRIES. THE MODEST INCREASE PLANNED (10 PERCENT FOR 1977) AND THE BASICALLY UNCHANGED MARKET BASKET BEAR THIS OUT.

2. CREDIT: MOVING ON TO THE LARGE SOVIET CREDIT WHICH WAS EXTENDED TO YUGOSLAVIA IN 1972, KNIAZEV SAID THAT IT WAS BEING TAKEN UP SLOWLY AND IS NOW PERHAPS 20 PERCENT OBLIGATED. (ACCORDING TO ONE SOURCE \$50 MILLION HAD ALREADY BEEN DISTRIBUTED  
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AS EARLY AS 1973. IF THIS IS TRUE, ONLY \$15-20 MILLION A YEAR HAS BEEN TAKEN UP SINCE.) HE ESTIMATED THAT THE FULL \$540 MILLION CREDIT WOULD BE TAKEN UP BY 1980. THIS IS THE FIRST OFFICIAL MEASURE WE HAVE HAD OF THE DIFFICULTIES THE TWO SIDES HAVE HAD GETTING TOGETHER ON THE USE OF THIS CREDIT. OUR BELIEF HAS BEEN THAT THIS \$540 MILLION WAS ONLY PART OF A PLANNED \$1.3 BILLION CREDIT WHICH WOULD HAVE BEEN RELEASED AS FOLLOWS: FIRST

TRANCHE - \$540 MILLION 1973-1976; SECOND TRANCHE - \$450 MILLION 1976-1980; THIRD TRANCHE - \$310 MILLION 1980 AND AFTER. KNIAZEV SAID THAT THE \$540 MILLION WAS THE ONLY CREDIT AGREED UPON BY THE TWO GOVTS ALTHOUGH THERE HAD BEEN "SOME DISCUSSION" OF FURTHER CREDITS WHICH HAVE NOT YET LED TO COMMITMENTS. PART OF THE DIFFICULTY IS THE IMPOSSIBILITY OF ESTABLISHING ENTERPRISE-TO-ENTERPRISE RELATIONS, WHICH THE YUGOSLAVS UNDERSTAND AND PREFER. ANOTHER PART IS THE UNREALISTIC ASSUMPTION BY SOME YUGOSLAV FIRMS THAT THEY SHOULD BE ABLE TO USE THE CREDIT FOR PURCHASE OF EQUIPMENT ANYWHERE - WITH PROCUREMENT NOT BEING TIED TO THE SOVIET UNION. THE SOVIETS HAVE CLAIMED THAT YUGOSLAV ENTERPRISES HAVE NOT PROVIDED THEM WITH TIMELY INFORMATION WHICH WOULD ALLOW OBLIGATIONS TO BE FITTED IN TO THE USSR'S OVERALL PLAN. WHATEVER THE REASON, THE CREDIT LANGUISHES AND KNIAZEV VOLUNTEERED NO IMPROVEMENTS STEMMING FROM THE DECEMBER JOINT ECONOMIC COMMITTEE MEETINGS IN MOSCOW.

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R 111530Z JAN 77  
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TO SECSTATE WASHDC 9200  
INFO AMEMBASSY MOSCOW  
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C O N F I D E N T I A L SECTION 2 OF 2 BELGRADE 154

C O R R E C T E D C O P Y FOR PARA 8 SECOND LINE GARBLED

3. U.S. INVESTMENT: BOTH USSR OFFICIALS SEEMED TO BE VERY INTERESTED IN WHETHER WORK HAD ACTUALLY STARTED ON THE DOW-INA JOINT VENTURE ON THE ISLAND OF KRK. THEY HAVE EVIDENTLY FOLLOWED IT WITH SOME INTEREST, KNOWING THE DATES OF BOTH SIGNING AND REGISTRATION. IT IS PROBABLE THAT THEY ARE UNDER STRICTURE TO FOLLOW AND REPORT CLOSELY ON THIS PROJECT. SURPRISINGLY, THEY HAD NO QUESTIONS ON THE KRsko PROJECT, OTHER THAN MENTIONING IT AS ANOTHER EXAMPLE OF U.S.-YUGOSLAV COOPERATION.

4. BOTH KNIAZEV AND RAZARENOV RETURNED SEVERAL TIMES TO THE SUBJECT OF THE RECENT VISIT OF SECRETARY OF COMMERCE RICHARDSON AND THE JUNE 1976 VISIT BY SECRETARY SIMON. EMBOFFS CHARACTERIZED THESE VISITS AS MORE OR LESS NORMAL CONSULTATIONS IN CONTEXT OF EAST EUROPEAN SWINGS BY BOTH OFFICIALS. BELIEVE THEIR INTEREST WAS PIQUED BY WESTERN PRESS REPORTS ON EXPORT CONTROL NEGOTIATIONS WHICH APPEARED AT TIME OF RICHARDSON VISIT.

5. BOTH RUSSIAN OFFICIALS SEEMED TO BE SURPRISED AT THE IMPORTANCE OF FURNITURE AND LEATHER FOOTWEAR IN YUGOSLAV EXPORTS TO THE U.S., AND ON THE OTHER HAND, IN THE IMPORTANCE OF AGRICULTURAL EXPORTS  
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FROM THE U.S.

6. WHEN ASKED OPINIONS ON THE COURSE OF THE YUGOSLAV ECONOMY IN THE NEAR TERM, RAZARENOV DEFERRED TO KNIAZEV WHO SAID THAT YUGOSLAVIA HAD DONE QUITE A GOOD JOB IN CUTTING HER TRADE DEFICIT IN 1976, AND IN KEEPING INFLATION CONTROLLED. (RAZARENOV INTERJECTED HERE, "BUT PRICES KEEP RISING"). KNIAZEV REFERRED TO IMPROVED YUGOSLAV RESERVE POSITION AND CAUTIOUSLY PREDICTED A GOOD YEAR FOR 1977, IF THERE ARE NO MAJOR INTERNATIONAL UPHEAVALS.

7. KNIAZEV CONFIRMED THAT NEITHER USSR NOR GOY HAS ANY DESIRE TO MOVE TO HARD CURRENCY SETTLEMENT SYSTEMS FOR FOREIGN TRADE. HE MENTIONED THAT USSR EXPORTS SOME ITEMS SOLELY FOR HARD CURRENCY NO MATTER WHAT THEIR DESTINATION. HE CITED FURS, WHICH HE CALLED "WHITE GOLD" AND SAID THERE ARE "SOME OTHER PRODUCTS" IN THIS HARD CURRENCY CATEGORY.

8. IN TOUCHING ON U.S. INVOLVEMENT IN KRSKO NUCLEAR PROJECT, KNIAZEV MENTIONED ALMOST AS AN ASIDE THAT USSR WOULD BUILD NUCLEAR POWER STATION IN YUGOSLAVIA. THOUGH FIRM DECISION MADE TO BUILD YUGOSLAVIA'S SECOND NUCLEAR PLANT IN CROATIA, TIMING, SITE AND SPECIFICATIONS STILL NOT DETERMINED. THERE ARE TWO REASONS WHY THE USSR MIGHT BE CHOSEN DESPITE RELATIVE INFERIORITY OF ITS NUCLEAR TECHNOLOGY. FIRST, THE YUGOSLAVS WOULD FIND ATTRACTIVE THE POLITICAL BALANCE OF A WESTINGHOUSE NUCLEAR PLANT (AT KRSKO) WITH A NEW SOVIET INSTALLATION. SECOND, THE YUGOSLAVS MAY SEE IN THE SOVIET CONNECTION AN OPPORTUNITY FOR LONG-TERM PARTICIPATION IN THE CONSTRUCTION OF NUCLEAR PLANTS IN THE USSR AND THIRD COUNTRIES - EXTENDING THE \$160 MILLION CONTRACT THE SOVIETS HAVE CONCLUDED WITH THREE SOVIET FIRMS FOR EQUIPMENT FOR THE USSR NUCLEAR PROGRAM (REFS A AND B).  
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## Message Attributes

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